LIM 476 Local Municipality
(Registration number Lim 476)

Annual Financial Statements
for the period ended 30 June 2017

General Information

Legal form of entity	Local Municipality
Councillors	
The Mayor	Phokane MJ
The Speaker	Phala TN
The Chief Whip	Shoba MV
	Mamogale MI
	Moeng QM
	Hlatswayo BE
	Pholoane BM
	Maila EE
	Mashego RM
	Kgwedi LJ
	Mogoane MK
	Makine MP
	Radingwana MR
	Mamogale MF
	Maupa TT
	Riba MR
	Mohubedu PS
	Malakane OA
	Mahlaba LM
	Magane MT
	Mabelane MM
	Mahlake TV
	Moshwane XE
	Makofane NN
	Kgaphola MA
	Khoza MR
	Mphethi MM
	Ngwatla TJ
	Malomane HK
	Lekwadi MI
	Mokgotho LL
	Malatji LM
	Maphakge RA
	Mnisi HD
	Mosoma SE
	Molapo NT
	Makua LC
	Rantho LJ
	Mariri ML
	Thobejane ML
	Mohlala SG
	Maisela RP
	Selepe ME
	Manale RE
	Ratsoma MJ
	Moifo KH
	Diphofa DK

General Information

	Makau M
	Mashabela MN
	Makhubedu NR
	Magabe MD
	Mphethi ND
	Phaladi RC
	Maphanga TP
	Mojalefa LH
	Gumede RT
	Malapane SS
	Kupa RB
	Madire ND
	Mamokgopa LD
	Makola JV
	Moagi SP
	Thwala CS
	Mogofe A
	Mphogo KD
	Radingwane TM
	Seroka MC
	Mpokgalaka CR
	Makofane IT
	Mashile MD
	Makgopa IK
	Mohlala BJ
	Molapo TI
	Mahlakwana ME
	Lentsoane SA
Grading of local authority	Grade 4
	MOHLALA JNT
Chief Finance Officer (CFO)	RATAU GT
Registered office	Greater Tubatse Municipality
Business address	1 Kastania Street Burgersfort 1150
Postal address	P. O. Box 206 Burgersfort 1150
Auditors	Auditor General South Africa
Nature of business and principal activities	Municipality
Bankers	Standard Bank Burgesfort
Attorneys	Noko Maimela Incorporated FM Maluleka Incorporated

General Information

Phambani Mokone Incorporated
Modise Mabule Attorneys
Verveen Attorneys
SA Thobane Attorneys
Shongwe Attorneys
Raphela Attorneys
BDK Attorneys
Rachoene Attorneys
Osman Attorneys and Makgoba,Kgomo
Makgaleng Attorneys

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant

Accounting officer's Responsibilities and Approval

The Accounting Officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Accounting Officer to ensure that the annual financial statements fairly present the state of affairs of the Municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Accounting Officer acknowledges that he is ultimately responsible for the system of internal financial control established by the Municipality and place considerable importance on maintaining a strong control environment. To enable the Municipality to meet these responsibilities, the Accounting Officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Municipality and all employees are required to maintain the highest ethical standards in ensuring that the Municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Municipality is on identifying, assessing, managing and monitoring all known forms of risks across the Municipality. While operating risk cannot be fully eliminated, the Municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The Accounting Officer has reviewed the Municipality's cash flow forecast for the period to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the Municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

I certify that the salaries, allowances and benefits of Councillors and payments made to Councillors for loss of office, if any, as disclosed in note 28 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on page 6 to 76 which have been prepared on the going concern basis, were approved by the Acting Accounting Officer on 31 August 2017 and were signed on its behalf by:

Acting Accounting Officer:
Ms NP Busane

31/8/2017
Date:

We are pleased to present our report for the financial year ended 30 June 2017.

Audit committee members and attendance

The audit committee consists of the independent members listed hereunder and should meet at least for four (4) times per annum as per approved terms of reference. During the current year six (6) meetings were held.

Name of Member	Number of meetings attended
Mr Joseph Nakedi Mpjane (Chairperson)	6 (Appointed as Chairperson 7 Novemeber 2016)
Adv. Letsepe Thubakgale	0 (Resigned 7 November 2016)
Mr Siyakhula Simelane	5
Adv. Tebogo Martin Malatjie	6
Mr Charles Choene Semenya	6 (Appointed 7 November 2016)
Ms Maria Makhongela	1 (Appointed 7 Novermber 2016 and Resigned 02 February 2017)

The term of the current audit committee was extended on the 3rd of May 2017 for the period of two years.

Audit Committee Responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(a) of the MFMA.

The committee also reports that it has adopted appropriate formal terms of reference as its Audit Committee Charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The Effectiveness of Internal Controls

Our review of the findings of the Internal Audit work, which was based on the risk assessment conducted in the municipality revealed certain weakness, which were then raised with the municipality.

There has been improvement in the system of internal controls of the municipality during the year and the risk management process are applied to manage the risk the entity is facing. The audit committee notes management's commitment to correct the deficiencies.

Evaluation of Annual Financial Statements

The audit committee has:

- reviewed and discussed the unaudited annual financial statements, to be submitted to the Auditor-General South Africa, with the accounting officer and senior management of the municipality;

- reviewed the municipalities compliance with legal and regulatory provisions.

Evaluation of Draft Performance Report

The audit committee has:

- reviewed and discussed the draft unaudited performance report prepared by the municipality before submission to the Auditor-General of South Africa;

- reviewed the reasons provided by management for material deviation from planned targets.

Internal Audit

Audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audit.

Auditor-General of South Africa

Audit Committee Report

The audit committee has met with the Auditor General of South Africa to ensure that there are no unresolved issues.

Mr J.N Mpjane CA (SA) RA

Chairperson: Audit Committee

Date:____________________

Accounting Officer's Report

The Accounting Officer submits the report for the period ended 30 June 2017.

1. Review of activities

Main business and operations

The Municipality is engaged in municipal activities such as rates, refuse and other services and operates principally in Burgersfort, South Africa.

Net surplus of the Municipality was R 174,644,460. -.

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. Refer to Note 49.

3. Subsequent events

The Accounting Officer is not aware of any subsequent event after reporting date which may negatively impact on the annual financial statements.

4. Accounting officer's interest in contracts

The Accounting Officer did not declare any interests in contracts of the Municipality for this financial year.

5. Accounting policies

The annual financial statements were prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6.

The Accounting Officer of the Municipality during the period and to the date of this report is as follows:

Name	Nationality	Changes
Mohlala, Johannes Nkhono Tshepo	RSA	Contract expired on 30 June 2017.

Mr JNT Mohlala's contract expired on 30 June 2017. Ms NP Busane has been appointed as the Acting Municipal Manager effective from 1 July 2017.

Accounting Officer's Report

7. Corporate governance

General

The Accounting Officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the Accounting Officer supports the highest standards of corporate governance and the ongoing development of best practice.

Councillors

The councillors:
- retains full control over the municipality, its plans and strategy;
- aknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;
- is of a unitary structure comprising;
  - Mayor
  - Speaker
  - Councillors.

Mayor

The roles of the Mayor and Municipal Manager are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion. The Council and Mayor perform their oversight role and duties in terms of the prescribed legislation and delegated authorities.

Audit Committee meetings

The Audit Commitee has met on 6 separate occasions during the financial period. The Audit Committee meets at least 4 times per annum.

Audit committee

During the financial year the audit committee was composed as follows:

1. Mr Joseph Nakedi Mpjane (Chairperson of the Audit and Performance Committee)

2. Mr Siyakhula Simelane (Member of the Audit and Performance committee and also Chairperson of the Risk Committee)

3. Adv Tebogo Martin Malatji (Member of the Audit and Performance Committee)

4. Mr Choene Charles Semenya (Member of the Audit and Performance Committee)

8. Bankers

The municipality banks primarily with Standard Bank.

9. Auditors

Auditor General South Africa will continue in office for the next financial period.

Statement of Financial Position

Figures in Rand	Note(s)	30 June 2017
Assets		
Current Assets		
Inventories	9	1,294,230
Operating lease asset	7	3,279,966
Receivables from exchange transactions	10	1,337,031
Receivables from non-exchange transactions	11	2,982,105
VAT receivable	12	43,555,641
Consumer debtors from exchange transactions	13	66,023,589
Consumer debtors from non-exchange transactions	13	129,665,529
Cash and cash equivalents	14	217,721,448
		465,859,539
Non-Current Assets		
Investment property	3	162,495,000
Property, plant and equipment	4	2,206,405,081
Intangible assets	5	47,954
Heritage assets	6	1,068,300
		2,370,016,335
Total Assets		**2,835,875,874**
Liabilities		
Current Liabilities		
Other financial liabilities	15	991,325
Finance lease obligation	16	125,368
Payables from exchange transactions	19	89,096,752
Unspent conditional grants and receipts	17	20,317,160
		117,735,815
Non-Current Liabilities		
Other financial liabilities	15	12,816,906
Finance lease obligation	16	313,011
Operating lease liability	7&39	18,701,768
Employee benefit obligation	8	24,637,311
Provisions	18	14,405,540
		70,874,536
Total Liabilities		**188,610,351**
Net Assets		**2,647,265,523**
Accumulated surplus		2,647,265,523

* See Note

Statement of Financial Performance

Figures in Rand	Note(s)	30 June 2017
Revenue		
Revenue from exchange transactions		
Service charges	22	14,208,601
Rental of facilities and equipment	33	270,704
Licences and permits		7,283,107
Fees earned		282,230
Other income	25	2,549,175
Interest received - investment	29	9,039,014
Total revenue from exchange transactions		**33,632,831**
Revenue from non-exchange transactions		
Taxation revenue		
Property rates	21	94,194,061
Property rates - penalties imposed	21	13,053,962
Transfer revenue		
Government grants & subsidies	23	450,999,246
Traffic fines	24	3,213,550
Total revenue from non-exchange transactions		**561,460,819**
Total revenue	20	**595,093,650**
Expenditure		
Employee related costs	27	124,680,485
Remuneration of councillors	28	23,357,958
Depreciation and amortisation	30	95,738,973
Impairment loss/ Reversal of impairments		3,089,075
Finance costs	31	2,667,330
Lease rentals on operating lease		14,603,646
Debt Impairment / (Reversal of Impairment)	46	(23,461,270)
Repairs and maintenance		59,787,687
Bulk purchases		153,957
Contracted services	34	60,566,581
Transfers and Subsidies	35	5,465,250
General Expenses	26	76,928,518
Total expenditure		**443,578,190**
Fair value adjustments	47	23,129,000
Surplus for the period		**174,644,460**

* See Note

LIM 476 Local Municipality

(Registration number Lim 476)
Annual Financial Statements for the period ended 30 June 2017

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Adjustments		
Accumulated surplus assumed	1,746,510,627	1,746,510,627
Adjustments	726,110,436	726,110,436
Restated* Balance at 01 July 2016	**2,472,621,063**	**2,472,621,063**
Changes in net assets		
Surplus for the period	174,644,460	174,644,460
Total changes	174,644,460	174,644,460
Balance at 30 June 2017	**2,647,265,523**	**2,647,265,523**

* See Note

Cash Flow Statement

Figures in Rand	Note(s)	30 June 2017
Cash flows from operating activities		
Receipts		
Sale of goods and services		50,145,718
Government Grant and subsidies		448,716,599
Interest income		9,039,014
Other receipts		14,033,939
		521,935,270
Payments		
Employee costs		(144,828,664)
Suppliers		(267,735,939)
Finance costs		(2,174,437)
		(414,739,040)
Net cash flows from operating activities	36	**107,196,230**
Cash flows from investing activities		
Purchase of property, plant and equipment	4	(79,261,756)
Proceeds from sale of property, plant and equipment	4	-
Net cash flows from investing activities		**(79,261,756)**
Cash flows from financing activities		
Repayment of other financial liabilities		-
Finance lease payments		(911,214)
Net cash flows from financing activities		**(911,214)**
Net increase/(decrease) in cash and cash equivalents		**27,023,260**
Cash and cash equivalents at the beginning of the year		190,698,188
Cash and cash equivalents at the end of the year	14	**217,721,448**

* See Note

LIM 476 Local Municipality

(Registration number Lim 476)
Annual Financial Statements for the period ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts

Revenue	Approved Budget	Adjustments	Final budget	Actual Amounts	Difference between Final Budget & Actual	Reference
Revenue from exchange transactions						
Service charges	12,925,877	45,181	12,971,058	14,208,601	1,237,543	N1
Rental of facilities and equipment	1,092,101	(554,500)	537,601	270,704	(266,897)	N2
Licences and permits	6,472,400	(2,000)	6,470,400	7,283,107	812,707	N3
Fees earned	10,763,397	103,603	10,867,000	282,230	(10,584,770)	N4
Other income	2,503,437	945,000	3,448,437	2,549,175	(899,262)	N5
Interest received - investment	10,958,546	(193,320)	10,765,226	9,039,014	(1,726,212)	N6
Agency fees	3,994,780	(332,000)	3,662,780	-	(3,662,780)	N7
Total revenue from exchange transactions	**48,710,538**	**11,964**	**48,722,502**	**33,632,831**	**(15,089,671)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	88,037,912	30,052,581	118,090,493	94,194,061	(23,896,432)	N8
Property rates - penalties imposed	11,259,536	-	11,259,536	13,053,962	1,794,426	N9
Transfer revenue						
Government grants & subsidies	478,660,481	65,265,128	543,925,609	450,999,246	(92,926,363)	N10
Fines, Penalties and Forfeits	2,231,575	-	2,231,575	3,213,550	981,975	N11
Total revenue from non-exchange transactions	**580,189,504**	**95,317,709**	**675,507,213**	**561,460,819**	**(114,046,394)**	
Total revenue	**628,900,042**	**95,329,673**	**724,229,715**	**595,093,650**	**(129,136,065)**	
Expenditure						
Personnel	(160,342,290)	8,203,226	(152,139,064)	(124,680,485)	27,458,579	N12
Remuneration of councillors	(29,028,428)	1,312,840	(27,715,588)	(23,357,958)	4,357,630	N13
Depreciation and amortisation	(44,183,000)	2,949,831	(41,233,169)	(95,738,973)	(54,505,804)	N14
Impairment loss/ Reversal of impairments	-	-	-	(3,089,075)	(3,089,075)	N13
Finance costs	(1,652,500)	-	(1,652,500)	(2,667,330)	(1,014,830)	N15
Lease rentals on operating lease	(17,550,000)	-	(17,550,000)	(14,603,646)	2,946,354	N16
Debt impairment	(30,387,000)	5,850,000	(24,537,000)	23,461,270	47,998,270	N17
Repairs and maintenance	(32,417,125)	(37,982,044)	(70,399,169)	(59,787,687)	10,611,482	N18
Bulk purchases	-	-	-	(153,957)	(153,957)	
Contracted Services	(41,820,000)	(12,665,000)	(54,485,000)	(60,566,581)	(6,081,581)	N19
Transfers and Subsidies	(5,425,000)	-	(5,425,000)	(5,465,250)	(40,250)	N20
General Expenses	(118,286,711)	(32,865,745)	(151,152,456)	(76,928,518)	74,223,938	N21
Total expenditure	**(481,092,054)**	**(65,196,892)**	**(546,288,946)**	**(443,578,190)**	**102,710,756**	
Operating surplus	**147,807,988**	**30,132,781**	**177,940,769**	**151,515,460**	**(26,425,309)**	
Fair value adjustments	-	-	-	23,129,000	23,129,000	
Surplus before taxation	**147,807,988**	**30,132,781**	**177,940,769**	**174,644,460**	**(3,296,309)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**147,807,988**	**30,132,781**	**177,940,769**	**38,751,297**	**(139,189,472)**	

Budget on Accrual Basis

Figures in Rand

N1 - The consolidated billing for former municipalities was under stated for during the budget process.

N2 - Non functional of properties earmarked for revenue collection / resistance of customer s to utilise the properties being rented

N3 - High demand of service.

N4 - Resistance of customers to pay for levied rates and taxes

N6 - The projected interest on investment was based on the current investments made. The deduction of the Equitable share from the second trench allocation stopped the Municipality from investing more cash as a result of cash flow projections.

N7 - Included in Licences and permits is commission earned as a result of third party collection.

N8 - The consolidated billing for former municipalities was overstated for during the budget process. The new valuation roll shows properties that were exempted from being levied.

N9 - More Customers were defaulted from paying of rates.

N10 - Included in the budget for current year is an allocation for former GTM which was not excluded when compling the LIM476 budget. In this regard the budget for current year was overstated. The unspent conditional grant which emanates from former GTM for 2015/2016 was deducted from the 2nd trench of Equitable share.

N11 - Resistance of defaulters to pay for traffic fines.

N12 - Vacant posts budgeted for but not filled during the year.

N13 - The new couuncil was elected during August and were only paid from Septembes and prorata payment for the period of August.

N14 - The consolidated asset register included other assets from former FTM which were not accountated for on the asset register for former FTM

N16 - Rental of municipal building was overstated during the budget process.

N17 - Less 10%.

N18 - The variance emanates from the regravelling of roads which was over budgted.

N19 - Less 10%.

N20 - Less 10%.

N21 - This variance emanates from operating projects savings on other operating projects during the year.

The accounting policies on page 16 and the notes on pages 40 to 74 form an integral part of the annual financial statements.

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Mergers

Definitions

Carrying amount of an asset or liability is the amount at which an asset or liability is recognised in the statement of financial position.

Combined municipality is a new reporting entity formed from the combination of two or more entities.

Combining entities are the entities that are combined for the mutual sharing of risks and benefits in a merger.

Control is the power to govern the financial and operating policies of another municipality so as to benefit from its activities.

A merger is the establishment of a new combined municipality in which none of the former entities obtain control over any other and no acquirer can be identified.

Merger date is the date on which entities are combined for the mutual sharing of risks and benefits and when the assets and liabilities are transferred to the combined municipality.

A transfer of functions is the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another municipality.

A merger is the establishment of a new combined municipality in which none of the former entities obtains control over any other and no acquirer can be identified. As no acquirer can be identified, a merger does not result in an municipality having or obtaining control over any of the entities that are involved in the transaction or event, as the combining entities are not controlled entities of each other, either before or after the merger.

Identifying the combined entity and combining entities

For each merger a combined municipality and combining entities is identified. All relevant facts and circumstances are considered in identifying the combined municipality and combining municipality.

The binding arrangement usually sets out which entities are to be combined as a result of the merger, and identifies the new reporting municipality after the merger.

Determining the merger date

The combined municipality and the combining entities identify the merger date, which is the date on which the new reporting municipality obtains control of the assets and liabilities and the combining entities loses control of their assets and liabilities.

All relevant facts and circumstances are considered in identifying the merger date.

Accounting Policies

1.2 Mergers (continued)

Assets acquired [transferred] and liabilities assumed [derecognised]

The recognition of assets and liabilities by the entity as combined entity are subject to the following conditions:

The assets and liabilities that qualify for recognition in a merger are part of what had been agreed in terms of the binding arrangement, rather than the result of separate transactions.

Other criteria for the entity (as the combined entity)

The assets and liabilities that quality for recognition as set out in the binding arrangement meets the definitions of assets and liabilities in the Framework for the Preparation and Presentation of Financial Statements and the recognition criteria in the applicable Standards of GRAP at the merger date.

Costs that the entity expects but which the municipality is not obliged to incur in the future to effect its plan to exit an activity of the combining entities or to terminate the employment of, or relocate the combining entities' employees, is not be accounted for as part of the liabilities at the merger date. The entity does not recognise those costs as part of a merger. Instead, the municipality recognises these costs in its annual financial statements after the merger has occurred, in accordance with the applicable Standards of GRAP.

Accounting Policies

1.2 Mergers (continued)

Accounting by the entity as the combined entity

Initial recognition and measurement

As of the merger date, the municipality recognises all the assets acquired and liabilities assumed. The assets acquired and liabilities assumed are measured at their carrying amounts.

If, prior to the merger, a combining municipality was not applying the accrual basis of accounting, that combining municipality changes its basis of accounting to the accrual basis of accounting prior to the merger.

The difference between the carrying amounts of the assets acquired and the liabilities assumed is recognised in accumulated surplus or deficit.

Measurement period

If the initial accounting for a merger is incomplete by the end of the reporting period in which the merger occurs, the municipality reports in its annual financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the municipality retrospectively adjust the provisional amounts recognised at the merger date to reflect new information obtained about facts and circumstances that existed as of the merger date and, if known, would have affected the measurement of the amounts recognised as of that date. The measurement period ends as soon as the municipality receives the information it was seeking about facts and circumstances that existed as of the merger date or learns that more information is not obtainable. However, the measurement period does not exceed two years from the merger date.

The municipality considers all relevant factors in determining whether information obtained after the merger date should result in an adjustment to the provisional amounts recognised or whether that information results from events that occurred after the merger date. Relevant factors include the date when additional information is obtained and whether the municipality can identify a reason for a change to provisional amounts.

The municipality recognises an increase (decrease) in the provisional amount recognised for an asset (liability) by means of decreasing (increasing) the excess of the purchase consideration paid over the carrying amount of the assets acquired and liabilities assumed previously recognised in accumulated surplus or deficit.

During the measurement period, the municipality recognises adjustments to the provisional amounts as if the accounting for the merger had been completed at the merger date. Thus, the municipality revises comparative information for prior periods presented in annual financial statements as needed, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.

After the measurement period ends, the municipality revises the accounting for a merger only to correct an error in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Expenditure incurred in relation to the merger

Expenditures incurred in relation to the merger are costs that the entity incurs to effect the merger. These costs include advisory, legal, accounting and other professional or consulting fees, general administrative costs, costs to furnish information to owners of the combining entities, and salaries and other expenses related to services of employees involved in achieving the merger. It also includes costs or losses incurred in combining the assets and liabilities of the combining entities. The municipality accounts for such expenditure as expenses in the period in which the costs are incurred.

Subsequent measurement

The municipality subsequently measures any assets acquired and any liabilities assumed in a merger in accordance with the applicable Standards of GRAP.

Accounting Policies

1.2 Mergers (continued)

At the merger date, the municipality classifies or designates the assets acquired and liabilities assumed as necessary to apply other Standards of GRAP subsequently. The municipality makes those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, the operating or accounting policies and other relevant conditions as these exist at the merger date. An exception is that the municipality classifies the following contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the merger date):

- classification of a lease contract as either an operating lease or a finance lease in accordance with the Standard of GRAP on Leases; and
- classification of a contract as an insurance contract in accordance with the International Financial Reporting Standard on Insurance Contracts.

The annual financial statements of the municipality are prepared using uniform accounting policies for similar transactions and other events or similar circumstances.

Accounting by entity as the combining entity

Assets transferred and liabilities de-recognised

As of the merger date, the municipality as the combining entity transfer and de-recognise from its annual financial statements, all the assets and liabilities de-recognised at their carrying amounts.

Until the merger date, the municipality continues to measure these assets and liabilities in accordance with applicable Standards of GRAP.

The difference between the carrying amounts of the assets transferred and the liabilities de-recognised are recognised in accumulated surplus or deficit.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement are inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

The municipality assesses its trade receivables, for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit , the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Impairment of Consumer and other receivables

1.3 Significant judgements and sources of estimation uncertainty (continued)

The calculation in respect of the impairment of debtors is based on the municipality's approved policy on calculation of doubtful debts. In accordance with GRAP 104 (Financial Instruments), an objective assessment of financial assets is made at year end to determine possible impairment. Impairment loss is recognised as an expense in the Statement of Financial Performance. The determination of the impairment loss is guided by the following principles as per GRAP 104 .
The municipality assesses financial assets individually, when assets are individually significant, and individually or collectively for financial assets that are not individually significant. (Individual Debtors' balances that constitute at least 5 percent of the total debtors book are considered to be individually significant by the municipality).

Where no objective evidence of impairment exists for an individually assessed asset (whether individually significant or not), the municipality includes the assets in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in the collective assessment of impairment. As soon as information becomes available that specifically identifies losses on individually impaired assets in a group (that are collectively assessed for impairment), those assets are removed from the group and assessed individually for impairment.

For collective assessment of impairment, as indicated above, assets with similar credit risk characteristics are grouped together. The credit risk characteristics should be indicative of the debtors? ability to pay all amounts due according to the contractual terms.

The method used in determining the group of assets to be assessed for impairment, is a grading process that considers the:
-Debtor type
-Industry
-Past due status (e.g. days/months that the accounts are in arrears);

Consumer debtors are evaluated at the end of the reporting date and impaired as follows:

Debtor type	Percentage of debt provided for as irrecoverable
Negative amounts	0%
Current balances	0%
30to 90 days	50%
More than 90 days	100%
Business and Industrial - always pay	0%
Government Organization	0%
Mines - always pay	0%
Indigent Debtors	100%
Municipal	0%
Handed over	100%

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18.

The cost of defined benefit pension contribution plans and other employment medical benefits is determined using actuarial valuations.

The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Additional information is disclosed in note 8.

Classification as investment property

The municipality has reviewed its property portfolio and determined which items of land and buildings are held to earn rental revenue or for capital appreciation. Land and buildings fulfilling these requirements have been classified as investment property, whilst the remainder of the portfolio has either been classified as property, plant and equipment or inventory depending on management's intention in dealing with these properties.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Depreciation and carrying value of items of property, plant and equipment

The estimation of the useful lives of assets is based on management's judgment. Management considers the impact of technology, availability of capital funding, service requirements, and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgment whether the assets will be sold or used to the end of their useful lives, and what their condition will be at that time.

1.4 Investment property

Investment property is initially recognised at cost. Transaction costs are capitalised to the initial cost.

Subsequent to initial measurement investment property is measured at fair value.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

The fair value of investment property reflects estimated market conditions at the reporting date whilst provisional amounts reflect the amounts determined using a reasonable basis such as a valuation roll.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

The fair value of investment property reflects estimated market conditions at the reporting date whilst provisional amounts reflect the amounts determined using a reasonable basis such as a valuation roll.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

1.5 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Accounting Policies

1.5 Property, plant and equipment (continued)

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	30
Emergency equipment	Straight line	5-10
Refuse Tankers	Straight line	5-10
Furniture and fixtures	Straight line	5-10
Motor vehicles	Straight line	7-10
Office equipment	Straight line	5-7
IT equipment	Straight line	5
Infrastructure	Straight line	5-200
• Roads and stormwater		5-150
• Refuse		20-50
• Buildings		20-100
• Recreational facilities		20-30
• Security		5-10
• Halls		20-30
• Libraries		20-30
• Parks and gardens		15-20
• Other assets		15-30
Other property, plant and equipment	Straight line	2-100
• Specialist vehicles		10-35
• Other vehicles		5-30
• Office furniture		3-15
• Furniture and fittings		5-20
• Watercraft		15-30
• Bins and containers		5-15
• Specialist plant and equipment		5-35
• Other plant and equipment		2-25
• Landfill sites		20-100
• Quarries		20-100
• Emergency equipment		5-25
• Computer equipment		3-15

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

Accounting Policies

1.5 Property, plant and equipment (continued)

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.6 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Accounting Policies

1.6 Intangible assets (continued)

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, internally generated	3-10 years

1.7 Heritage assets

Heritage assets are not depreciated, as their long economic life and high residual value mean that any depreciation would be immaterial.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

1.8 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Cash and cash equivalents
- Trade receivables
- Financial assets measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis.

Initial recognition and measurement

Financial instruments are initially recognised at fair value including any transactions costs.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Accounting Policies

1.8 Financial instruments (continued)

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Financial assets impaired through use of an allowance account are recognised in surplus or deficit within operating expenses, when such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Financial instruments designated as at fair value through surplus or deficit

All financial instruments are initially measured at fair value. The financial instruments are subsequently recognised at fair value through profit and loss.

Receivables from exchange transactions

Receivables from exchange transactions comprise of:
- Consumer debtors

Consumer receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Consumer and other receivables are classified as loans and receivables.

Payables from exchange transactions

Payables from exchange transactions comprise of:
- Trade payables
- Payments in advance.

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently measured at amortised cost, using the effective interest method.

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash on hand and deposits held on call with bank and short-term highly liquid investments.

Accounting Policies

1.8 Financial instruments (continued)

Derivatives

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in surplus or deficit.

Changes in the fair value of derivative financial instruments are recognised in surplus or deficit as they arise.

Derivatives are classified as financial assets at fair value through surplus or deficit - held for trading.

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

Payables from exchange transactions

Payables from exchange transactions comprise of:
Trade payables
Payments in advance

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:
- the rights to receive cash flows from the asset have expired;
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Accounting Policies

1.8 Financial instruments (continued)

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

1.10 Inventories (continued)

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

1.11 Impairment of cash-generating assets (continued)

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.12 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:
[Specify criteria]

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

1.12 Impairment of non-cash-generating assets (continued)

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.13 Accumulated surplus / (deficit)

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.14 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

The entity recognise the expected cost of bonus and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:
- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Accounting Policies

1.14 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other long-term employee benefits

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the municipality. The cost for each employee is computed at each reporting date based on the probability of being employed at each service award date, taking into account the assumed rates of withdrawal, early retirement and death. On determining this liability due allowance is made for future salary increases. Actuarial gains and losses are recognised in full in the year they are incurred.

The municipality's net obligation in respect of long service awards is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value.

1.15 Leave

The municipality provides employees with time off from work for a variety of reasons. Leave days granted by an employer can accumulate from one period to the next of a maximum of 48 days.

Leave days accumulate from one period to the next. The municipality recognises a liability and expense for accumulating leave as and when employees render services that entitle them to those leave days. The amount of the liability and expense is determined as the additional amount an entity is required to pay as a result of the unused leave days owing to employees at the end of the reporting period.

1.16 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Accounting Policies

1.16 Provisions and contingencies (continued)

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11.

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

Accounting Policies

1.16 Provisions and contingencies (continued)

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.17 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.18 Revenue

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Revenue from non-exchange transactions comprises of:

- Taxes; and
- Transfers (whether cash or non-cash), including grants, debt forgiveness, fines, bequests, gifts, donations, and goods and services in kind.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the muncipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Accounting Policies

1.18 Revenue (continued)

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Interest

Revenue arising from the use by others of entity assets yielding interest, is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.19 Service charges

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Accounting Policies

1.19 Service charges (continued)

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

1.20 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.21 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current period.

1.22 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the period that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the period that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.24 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

1.24 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.25 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

1.26 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.27 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by the municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget covers the fiscal period from 11/08/2016 to 30/06/2017.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Accounting Policies

1.28 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.29 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.30 Prior period error

Errors are corrected retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality would restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

1.31 Change in accounting policy

Changes in accounting policies due to adoption of newly effective Standards of GRAP have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy or where allowed transitional provisions had been adopted. In such cases the municipality would restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.
The main objective of retrospective application is to adjust the financial statements as if the entity had always been applying the accounting policy as in the current year. Therefore, the change must be reflected not only in the current period, but also in the comparative periods' figures shown in the statement of financial position, statement of financial performance, statement of changes in net assets, cash flow statement and notes to the financial statements.t

Notes to the Annual Financial Statements

Figures in Rand	30 June 2017

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current period

In the current period, the municipality has adopted the following standards and interpretations that are effective for the current financial period and that are relevant to its operations:

GRAP 105: Transfers of Functions Between Entities Under Common Control

The objective of this standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.

A transfer of functions between entities under common control is a reorganisation and / or reallocation of functions between entities that are ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities under common control, the assets and liabilities should be recognised (by the acquirer) at their carrying amounts and should be derecognised (by the transferor) at their carrying amounts.

The difference between the amount of consideration paid or received, if any, and the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality has adopted the standard for the first time in the 2017 annual financial statements.

The impact of the standard is not material.

GRAP 106: Transfers of Functions Between Entities not Under Common Control

The objective of this standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. A transfer of functions between entities not under common control is a reorganisation and / or reallocation of functions between entities that are not ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition date fair values. The difference between the amount of consideration paid, if any, and the carrying amounts of assets acquired and liabilities assumed should be recognised in accumulated surplus / (deficit).

For a transfer of functions between entities not under common control there are some specific recognition and measurement principles and exceptions to the recognition and measurement principles.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality has adopted the standard for the first time in the 2017 annual financial statements.

The impact of the standard is not material.

GRAP 107: Mergers

The objective of this standard is to establish accounting principles for the combined entity and combining entities in a merger. A merger is where a new combined entity is started, acquirer can be identified and the conbining entities do not have any control over the combined entity.

In the event of a merger, the assets and liabilities should be recognised (by the combined entity) at their carrying amounts and
should be derecognised (by the combining entities) at their carrying amounts. The difference between the carrying amounts of
assets and liabilities should be recognised in accumulated surplus / (deficit).

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality has adopted the standard for the first time in the 2017 annual financial statements.

The impact of the standard is not material.

IGRAP 11: Consolidation – Special purpose entities

An entity may be created to accomplish a narrow and well-defined objective (e.g. to effect a lease, research and development activities or a securitisation of financial assets). Such a special purpose entity ('SPE') may take the form of a corporation, trust, partnership or unincorporated entity. SPEs often are created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their management over the operations of the SPE.

Frequently, these provisions specify that the policy guiding the ongoing activities of the SPE cannot be modified, other than perhaps by its creator or sponsor (ie they operate on so-called 'autopilot').

The sponsor (or entity on whose behalf the SPE was created) frequently transfers assets to the SPE, obtains the right to use assets held by the SPE or performs services for the SPE, while other parties ('capital providers') may provide the funding to the SPE. An entity that engages in transactions with an SPE (frequently the creator or sponsor) may in substance control the SPE. A beneficial interest in an SPE may, for example, take the form of a debt instrument, an equity instrument, a participation right, a residual interest or a lease. Some beneficial interests may simply provide the holder with a fixed or stated rate of return, while others give the holder rights or access to other future economic benefits or service potential of the SPE's activities. In most cases, the creator or sponsor (or the entity on whose behalf the SPE was created) retains a significant beneficial interest in the SPE's activities, even though it may own little or none of the SPE's net assets.

lThe Standard of GRAP on Consolidated and Separate Financial Statements requires the consolidation of entities that are controlled by the reporting entity. However, the Standard of GRAP does not provide explicit guidance on the consolidation of SPEs. The issue is under what circumstances an entity should consolidate an SPE. This interpretation of the Standards of GRAP does not apply to post-employment benefit plans or other long-term employee benefit plans to which the Standard of GRAP on Employee Benefits applies.

A transfer of assets from an entity to an SPE may qualify as a sale by that entity. Even if the transfer does qualify as a sale, the provisions of the Standard of GRAP on Consolidated and Separate Financial Statements and this Interpretation of the Standards of GRAP may mean that the entity should consolidate the SPE. This Interpretation of the Standards of GRAP does not address the circumstances in which sale treatment should apply for the entity or the elimination of the consequences of such a sale upon consolidation.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality has adopted the standard for the first time in the 2017 annual financial statements.

The impact of the standard is not material.

IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures

Paragraph .54 in the Standard of GRAP on Interests in Joint Ventures refers to both contributions and sales between a venturer and a joint venture as follows: 'When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction'. In addition, paragraph 31 in the Standard of GRAP on Interests in Joint Ventures says that 'a jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest'. There is no explicit guidance on the recognition of gains and losses resulting from contributions of non-monetary assets to jointly controlled entities ('JCEs').

Contributions to a JCE are transfers of assets by venturers in exchange for an interest in the net asset in the JCE. Such contributions may take various forms. Contributions may be made simultaneously by the venturers either upon establishing the JCE or subsequently. The consideration received by the venturer(s) in exchange for assets contributed to the JCE may also include cash or other consideration that does not depend on future cash flows of the JCE ('additional consideration').

The issues are:

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- when the appropriate portion of gains or losses resulting from a contribution of a non-monetary asset to a JCE in exchange for an interest in the net assets in the JCE should be recognised by the venturer in surplus or deficit;
- how additional consideration should be accounted for by the venturer; and
- how any unrealised gain or loss should be presented in the consolidated.

This Interpretation of the Standards of GRAP deals with the venturer's accounting for non-monetary contributions to a JCE in exchange for an interest in the net assets in the JCE that is accounted for using either the equity method or proportionate consolidation.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality has adopted the standard for the first time in the 2017 annual financial statements.

The impact of the standard is not material.

GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements

The definition of 'minority interest' has been amended to 'non-controlling interest', and paragraph .60 was added by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107 from the date at which it first applied the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .03, .39, .47 to .50 and added paragraphs .51 to .58 and .61 to .62. An entity shall apply these amendments when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality has adopted the standard for the first time in the 2017 annual financial statements.

The impact of the standard is not material.

GRAP 7 (as revised 2010): Investments in Associates

Paragraphs .03 and .42 were amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

IThe Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .22, .28 and .38 and added paragraph .24. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality has adopted the standard for the first time in the 2017 annual financial statements.

The impact of the standard is not material.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 8 (as revised 2010): Interests in Joint Ventures

Paragraph .04 was amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers added paragraph .50 and amended paragraphs .51 and .52. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality has adopted the standard for the first time in the 2017 annual financial statements.

The impact of the standard is not material.

Directive 11: Changes in Measurement Bases Following the Initial Adoption of Standards of GRAP

The objective of this directive is to permit the municipality to change its measurement bases following the initial adoption of Standards of GRAP. The change is based on the principles in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors. This directive should therefore be read in conjunction with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

In applying paragraph 13(b) of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors, this directive allows the municipality, that has initially adopted the fair value model for investment property or the revaluation model for property, plant and equipment, intangible assets or heritage assets, to change its accounting policy on a once-off basis to the cost model when the municipality elects to change its accounting policy following the initial adoption of these Standards of GRAP. The once-off change will be allowed when the municipality made an inappropriate accounting policy choice on the initial adoption of the Standards of GRAP.

ISubsequent to the application of this directive, the municipality will be allowed to change its accounting policy in future periods subject to it meeting the requirements in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality has adopted the standard for the first time in the 2017 annual financial statements.

The impact of the standard is not material.

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2017 or later periods but are not relevant to its operations:

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.

- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity)

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:
- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence.

The standard sets out the requirements, inter alia, for the disclosure of:
- Control;
- Related party transactions; and
- Remuneration of management.

The effective date of the standard is not yet set by the Minister of Finance.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity. It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease.

This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time.

The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

Consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 16 (as amended 2015): Investment Property

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Various amendments were made to the Standard, affecting Definitions, Identification, Disclosure, Effective date and Transitional provisions.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2018 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 17 (as amended 2015): Property, Plant and Equipment

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Amendments identified as part of the post-implementation review, affected the following areas:

- Indicator-based assessment of the useful lives of assets
- Use of external valuers
- Encouraged disclosures
- Capital work-in-progress
- Expenditure incurred on repairs and maintenance.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2018 annual financial statements

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 109: Accounting by Principals and Agents

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement.

The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements

GRAP 21 (as amended 2015): Impairment of non-cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Non-cash-generating Assets are outlined below:

General definitions:

The definition of cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets.

- Cash generating assets and non-cash-generating assets

  Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

- Identifying an asset that may be impaired:

  Additional commentary has been added to clarify that physical damage triggers impairment of an asset when it results in a permanent or a significant decline in the potential of an asset.

- Reversing an impairment loss:

  An indicator has been added that the restoration of an asset's service potential following physical damage to the asset could indicate a reversal in an impairment loss.
  Additional commentary has been added to clarify that restoration of an asset's service potential as a result of physical damage is an indication that an impairment loss recognised in prior periods may no longer exist or may have decreased.

- Disclosures:

  The requirement to disclose the criteria developed to distinguish non-cash-generating assets from cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash generating assets.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality expects to adopt the standard for the first time in the 2018 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements

GRAP 26 (as amended 2015): Impairment of cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards

Summary of changes:

The changes to the Standard of GRAP on Impairment of Cash-generating Assets are outlined below:

- General definitions:

  The definitions of cash-generating assets and cash-generating unit have been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets below.

- Cash generating assets and non-cash-generating assets:

  Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

- Disclosures:

  The requirement to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cashgenerating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality expects to adopt the standard for the first time in the 2018 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities

Historically, public entities have prepared financial statements in accordance with generally recognised accounting practice, unless the Accounting Standards Board (the Board) approved the application of generally accepted accounting practice for that entity. "Generally accepted accounting practice" has been taken to mean Statements of Generally Accepted Accounting Practice (Statements of GAAP), or for certain entities, International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board. Since Statements of GAAP have been withdrawn from 1 December 2012, public entities will be required to apply another reporting framework in the future.

The purpose of this Directive is to prescribe the criteria to be applied by public entities in selecting and applying an appropriate reporting framework.

The effective date of the standard is for years beginning on or after 01 April 2018.

The municipality expects to adopt the standard for the first time in the 2019 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

Figures in Rand

3. Investment property

	2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	162,495,000	-	162,495,000

Reconciliation of investment property - 2017

	Opening balance / Merger	Fair value adjustments	Total
Investment property	139,366,000	23,129,000	162,495,000

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

	2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	109,359,710	-	109,359,710
Buildings	87,525,905	(20,294,574)	67,231,331
Plant and machinery	33,603,210	(9,074,967)	24,528,243
Furniture and fixtures	11,707,898	(6,544,331)	5,163,567
Motor vehicles	9,164,384	(5,038,565)	4,125,819
Office equipment	1,740,153	(1,031,518)	708,635
IT equipment	8,631,000	(4,852,611)	3,778,389
Infrastructure	2,352,955,774	(543,537,857)	1,809,417,917
Community	60,098,210	(6,078,014)	54,020,196
Work In Progress	127,495,605	-	127,495,605
Other assets	1,313,469	(737,800)	575,669
Total	2,803,595,318	(597,190,237)	2,206,405,081

Reconciliation of property, plant and equipment - 2017

	Opening balance / Merger	Additions	Transfers	Impairment	Depreciation	Total
Land	106,629,710	2,730,000	-	-	-	109,359,710
Buildings	70,047,796	-	-	-	(2,816,465)	67,231,331
Plant and machinery	26,863,687	27,500	-	-	(2,362,944)	24,528,243
Furniture and fixtures	5,986,860	25,665	-	-	(848,958)	5,163,567
Motor vehicles	4,800,236	27,000	-	-	(701,417)	4,125,819
Office equipment	986,261	7,499	-	-	(285,125)	708,635

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

IT equipment	4,116,651	716,174	-	(8,631)	(1,045,805)	3,778,389
Infrastructure	1,806,948,319	87,258,977	-	(434,035)	(84,355,344)	1,809,417,917
Community buildings	52,860,481	3,935,850	-	-	(2,776,135)	54,020,196
Work in progress	127,908,538	86,651,575	(87,064,508)	-	-	127,495,605
Other assets	611,967	27,430	-	-	(63,728)	575,669
	2,207,760,506	181,407,670	(87,064,508)	(442,666)	(95,255,921)	2,206,405,081

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Total
Opening balance	127,908,538	127,908,538
Additions/capital expenditure	86,651,575	86,651,575
Transferred to completed items	(87,064,508)	(87,064,508)
	127,495,605	127,495,605

5. Intangible assets

	2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Intangible assets	224,093	(176,139)	47,954

Reconciliation of intangible assets - 2017

Notes to the Annual Financial Statements

Figures in Rand	30 June 2017

5. Intangible assets (continued)

	Opening balance / Merger	Amortisation	Total
Intangible assets	88,339	(40,385)	47,954

Notes to the Annual Financial Statements

Figures in Rand	30 June 2017

6. Heritage assets

	2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	1,068,300	-	1,068,300

Reconciliation of heritage assets 2017

	Opening balance / Merger	Total
Art Collections, antiquities and exhibits	1,068,300	1,068,300

7. Operating lease asset (accrual)

Current assets	3,279,966
Non-current liabilities	(18,701,768)
	(15,421,802)

8. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

Carrying value	
Present value of the defined benefit obligation-wholly unfunded	(21,550,688)
Actuarial gains (losses)	613,246
Current service cost	(2,180,246)
Interest cost	(1,693,472)
Benefits paid	173,849
	(24,637,311)

Net expense recognised in the statement of financial performance

Current service cost	2,180,246
Interest cost	1,693,472
Actuarial (gains) losses	(613,246)
Settlement	(173,849)
	3,086,623

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	(787,095)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.66 %
Medical cost trend rates	8.03 %

Financial variable (Post employment medical aid benefits)	2017
Discount rate	Yield Curve

8. Employee benefit obligations (continued)

CPI	Difference between nominal and yield curves
Medical aid contribution inflation	CPI+ 1%
Net effective discount rate	Yield curve based
Financial variable (Long service leave)	
Discount rate	Yield Curve
CPI	Difference between nominal and real yield curve
Normal Salary Increase Rate	Equal to CPI+1%
Net effective discount rate	Yield curve based

Defined contribution plan

Post Employment Medical Aid
It is the policy of the municipality to provide post employment medical aid benefits to all its employees. A post employment medical aid defined contribution provident fund, which is subject to the Pensions Fund Act exists for this purpose.It is the policy of the municipality to provide retirement benefits to all its employees as per employee defined benefits on their specific relevant contracts.

The municipality is under no obligation to cover any unfunded benefits.

Discount rate
GRAP 25 defines the determination of the Discount rate assumption to be used as follows:

"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve."

Statement of Financial Position
The nominal and real zero curves as at 30 June 2017 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period was used. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years.

Medical Aid Inflation
The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Medical Aid Contribution Inflation for each relevant time period.

South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would out-strip general inflation by 1% per annum over the foreseeable future.

Average Retirement Age
The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

Normal Retirement Age
The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Figures in Rand	30 June 2017

8. Employee benefit obligations (continued)

Mortality Rates
Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

Spouses and Dependants
The actuaries assumed that the marital status of members who are currently married will remain the same up to retirement. It was also assumed that 90% of all single employees would be married at retirement with no dependent children. Where necessary it was assumed that female spouses would be five years younger than their male spouses at retirement and vice versa.

LONG SERVICE AWARD

Discount rate
GRAP 25 defines the determination of the Discount rate assumption to be used as follows:

"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve."

Statement of Financial Position
The nominal and real zero curves as at 30 June 2017 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period was used. Previously only one discount rate was used to value all the liabilities.

Net effective discount rate
The Net Effective Discount Rate is different for each relevant time period of the yield curves' various durations and therefore the Net Effective Discount Rate is based on the relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Salary Inflation for each relevant time period.

Normal salary inflation rate
We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2016 of 6%. The next salary increase was assumed to take place on 01 July 2017.

9. Inventories

Consumables	1,294,230

10. Receivables from exchange transactions

Sundry debtors	1,337,031

11. Receivables from non-exchange transactions

Traffic Fines	782,940
Other receivables	2,199,165
	2,982,105

12. VAT receivable

Notes to the Annual Financial Statements

Figures in Rand	30 June 2017

12. VAT receivable (continued)

VAT	43,555,641

The VAT is disclosed as a receivable of R43,555,641.

VAT receivable movement are disclosed in note 45.

13. Consumer debtors

Gross balances	
Rates	191,802,510
Refuse	47,429,784
Other	50,741,738
	289,974,032
Less: Allowance for impairment	
Rates	(62,136,981)
Refuse	(15,330,857)
Other	(16,817,076)
	(94,284,914)
Net balance	
Rates	129,665,529
Refuse	32,098,927
Other	33,924,662
	195,689,118
Included in above is receivables from exchange transactions	
Refuse	32,098,927
Other	33,924,662
	66,023,589
Included in above is receivables from non-exchange transactions (taxes and transfers)	
Rates	129,665,529
Net balance	**195,689,118**
Rates	
Current (0 -30 days)	7,501,527
31 - 60 days	9,415,139
61 - 90 days	3,947,155
91 - 120 days	3,897,006
121 - 360 days	43,979,441
> 365 days	123,062,242
	191,802,510
Refuse	
Current (0 -30 days)	1,812,292
31 - 60 days	2,414,527
61 - 90 days	1,135,473
91 - 120 days	1,130,387
121 - 365 days	8,653,961
> 365 days	32,283,143
	47,429,783

Notes to the Annual Financial Statements

Figures in Rand	30 June 2017

13. Consumer debtors (continued)

Other	
Current (0 -30 days)	2,074,029
31 - 60 days	3,630,261
61 - 90 days	1,873,698
91 - 120 days	1,596,123
121 - 365 days	9,903,942
> 365 days	31,663,685
	50,741,738

Consumer debtors pledged as security

None of the consumer debtors were peldged as security.

14. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	17
Bank balances	54,972,765
Other cash and cash equivalents	162,748,666
	217,721,448

The municipality had the following bank accounts

Account number / description	**Bank balance 30 June 2017**	**Cash Book balance 30 June 2017**
FNB BANK - CALL ACCOUNT - 620-623-0699	36,798	36,798
FNB BANK - CHEQUE ACCOUNT - 565-500-22466	6,707,626	13,867,497
FNB BANK - BUSINESS MONEY MARKE - 621-714-33982	206,904	206,904
FNB BANK - CALL ACCOUNT - 620-275-10818	952,725	952,725
FNB BANK - CALL ACCOUNT - 616-550-0887	76,816	76,816
NEDBANK - 90DAYS NOTICE - 7881096004/0024	89,127,688	89,127,688
STANDARD BANK - BUSINESS ACCOUNT - 030164532000	4,258,619	4,149,505
STANDARD BANK - BUSINESS ACCOUNT - 330062891000	37,395,226	37,355,762
VBS MUTUAL BANK - CALL ACCOUNT- 10058988001	31,018,013	31,018,013
VBS MUTUAL BANK -CALL ACCOUNT- 10058988002	40,929,723	40,929,723
PETTY CASH	17	17
Total	**210,710,155**	**217,721,448**

15. Other financial liabilities

At amortised cost

Notes to the Annual Financial Statements

Figures in Rand	30 June 2017

15. Other financial liabilities (continued)

DBSA LOAN 102904/1&2	12,469,120
Loan 102904/1 - Interest bearing at a rate of 10.415% per annum over a loan period of 20 years.	
Loan 102904/2 - Interest bearing at a rate of 5% per annum over a loan period of 20 years.	
DBSA LOAN 13585/102	1,339,111
Loan 13585/102 - Interest bearing at a rate of 5% per annum over a loan period of 20 years.	
Total financial liabilities	**13,808,231**
Total other financial liabilities	**13,808,231**

Non-current liabilities	
At amortised cost	12,816,906
Current liabilities	
At amortised cost	991,325

16. Finance lease obligation

Minimum lease payments due	
- within one year	129,794
	129,794
less: future finance charges	(4,426)
Present value of minimum lease payments	**125,368**

Present value of minimum lease payments due	
- within one year	125,368
- in second to fifth year inclusive	313,011
	438,379

It is municipality policy to lease plant and equipment under finance leases.

The average lease term was 3-5 years and the average effective borrowing rate was 9.25%.

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer to note 4.

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts	
MDTG	3,584,879
FMG Grant	77
EPWP Grant	46,035
MIG Grant	8,142,169
Neigbourhood Development Grant	8,544,000
	20,317,160

See note 23 for reconciliation of grants from National/Provincial Government.

Figures in Rand	30 June 2017

18. Provisions

Reconciliation of provisions - 2017

	Opening Balance / Merger	Additions	Utilised during the year	Actuarial (gains) losses	Total
Environmental rehabilitation	9,289,408	3,985,532	-	1,130,600	14,405,540
Leave accrual	5,250,348	1,029,533	925,329	-	7,205,210
	14,539,756	**5,015,065**	**925,329**	**1,130,600**	**21,610,750**

Non-current liabilities	14,405,540
Current liabilities	7,205,210
	21,610,750

Environmental rehabilitation provision

The landfill site was full as at 30 June 2017 thus the Landfill rehabilitation and closure cost of R10,420,008 as determined by the actuaries as at 30 June 2017 was fully recognised in the 2017 AFS. It is expected that the provision will be utilised in the 2017-18 financial year for the rehabilitation and closure costs.

19. Payables from exchange transactions

Trade payables	26,609,431
Unallocated receipts	31,042,040
Accrued bonus	3,821,893
Retention creditors	17,925,147
Other payables	2,827,233
Consumer debtors in credit	6,871,008
	89,096,752

Notes to the Annual Financial Statements

Figures in Rand	30 June 2017

20. Revenue

Service charges	14,208,601
Rental of facilities and equipment	270,704
Licences and permits	7,283,107
Fees earned	282,230
Other income	2,549,175
Interest received - investment	9,039,014
Property rates	94,194,061
Property rates - penalties imposed	13,053,962
Government grants & subsidies	450,999,246
Fines, Penalties and Forfeits	3,213,550
	595,093,650

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	14,208,601
Rental of facilities and equipment	270,704
Licences and permits	7,283,107
Fees earned	282,230
Other income	2,549,175
Interest received - investment	9,039,014
	33,632,831

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue	
Property rates	94,194,061
Property rates - penalties imposed	13,053,962
Transfer revenue	
Government grants & subsidies	450,999,246
Fines, Penalties and Forfeits	3,213,550
	561,460,819

21. Property rates

Rates received

Residential	98,771,155
Less: Income forgone	(4,577,094)
	94,194,061
Property rates - penalties imposed	13,053,962
	107,248,023

Valuations

Residential	2,998,592,000
Commercial	2,254,530,000
Government	131,026,000
Municipal	88,713,000
Small holdings and farms	1,847,941,000
Schools	798,085,000
Mines	676,680,000
Churches	18,440,000
	8,814,007,000

Notes to the Annual Financial Statements

Figures in Rand	30 June 2017

21. Property rates (continued)

Valuations on land and buildings are performed every 4 years. The latest general valuation came into effect on 1 July 2016. The municipality requested an extension the validity of the valuation roll from the ofice of the MEC of Local Governement. The extension was granted. Supplementary valuations are processed on a need basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate is applied to property valuations to determine assessment rates. Rebates of 30% are granted to residential and state property owners.

Rates are levied on an annual basis and paid on monthly basis . Interest at prime plus 1% per annum and a collection fee of is levied on rates outstanding two months after due date.

22. Service charges

Refuse removal	14,208,601

23. Government grants and subsidies

Operating grants	
Equitable share	256,467,000
Municipal Systems Improvement Programme Grant	9,843,121
EPWP	2,121,000
FMG	3,635,000
	272,066,121
Capital grants	
Municipal Infrastructure Grant	98,933,125
INEP Grant	80,000,000
	178,933,125
	450,999,246

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive 100% subsidy on a monthly basis for rates and refuse , which is funded from the grant.

MDTG

Balance unspent at beginning of period / Merger	5,372,000
Current-year receipts	8,056,000
Conditions met - transferred to revenue	(9,843,121)
	3,584,879

Conditions still to be met - remain liabilities (see note 17)

FMG

Balance unspent at beginning of period / Merger	77
Current-year receipts	3,635,000
Conditions met - transferred to revenue	(3,635,000)
	77

Conditions still to be met - remain liabilities (see note 17)

Notes to the Annual Financial Statements

Figures in Rand	30 June 2017

23. Government grants and subsidies (continued)

The grant is used to cater for the finance management interns, their training and any other financial management reforms.

EPWP

Balance unspent at beginning of period / Merger	46,035
Current-year receipts	2,121,000
Conditions met - transferred to revenue	(2,121,000)
	46,035

Conditions still to be met - remain liabilities (see note 17)

The grant is used for salaries of employees for the Extended Public Works Programme.

MIG

Balance unspent at beginning of period / Merger	20,405,294
Current-year receipts	110,885,000
Conditions met - transferred to revenue	(98,933,125)
Amount paid to Treasury	(24,215,000)
	8,142,169

Conditions still to be met - remain liabilities (see note 17)

This grant is for the implementation of projects approved by MIG.

INEP

Current-year receipts	80,000,000
Conditions met - transferred to revenue	(80,000,000)
	-

Conditions still to be met - remain liabilities (see note 17).

Neigbourhood Development Grant

Current-year receipts	8,544,000

Conditions still to be met - remain liabilities (see note 17).

Notes to the Annual Financial Statements

Figures in Rand	30 June 2017

24. Other revenue

Fees earned	282,230
Fines, Penalties and Forfeits	3,213,550
Other income	2,549,175
Licences and permits	7,283,107
	13,328,062

25. Other income

Outdoor Advertisement	2,142,274
Sundry Income	406,901
	2,549,175

26. General expenses

Allowances traditional leaders	368,751
Advertisements	854,729
Auditors remuneration	7,429,629
Bank charges	1,658,625
Debt collection	589,578
Entertainment	696,264
Insurance	1,220,569
IT management	9,728,576
Promotions and sponsorships	364,370
Magazines, books and periodicals	293,322
EPWP - Implementation of grant	2,632,025
Fuel and oil	963,892
Printing and stationery	430,419
Protective clothing	63,645
Royalties and license fees	18,628
Occupational health and safety	343,128
Employee wellness	98,460
Subscriptions and membership fees	3,390,087
Telephone and fax	1,901,251
Training	2,236,453
Travel - local	7,658,922
Refuse	48,246
Special programs	7,017,870
Ward committee	2,963,497
Skills development program	1,186,513
Implementation of FMG grant	1,865,087
Other expenses	19,845,085
Rent of equipment and offices	1,060,897
	76,928,518

27. Employee related costs

Basic	74,659,248
Medical aid - company contributions	6,104,115
UIF	515,337
Industrial council levy	31,317
Skills development levy	1,156,476
Leave pay provision charge	1,029,533
Defined contribution plans	13,698,389
Overtime payments	2,337,558
Long-service bonus provision	775,099

Notes to the Annual Financial Statements

Figures in Rand	30 June 2017

27. Employee related costs (continued)

13th Cheques	6,623,945
Acting allowances	22,537
Car allowance	13,665,105
Housing benefits and allowances	1,220,918
Tellephone allowance	1,349,186
Other allwance	86,575
Post Employment Health Care Benefit Current Cost	1,405,147
	124,680,485

Remuneration of Municipal Manager

Salary	800,091
Car allowance	213,548
Telephone allowance	38,695
Travel claim	115,249
Subsistence allowance	1,734
Housing allowance	168,523
Remote allowance	50,759
	1,388,599

Remuneration of Chief Finance Officer

Salary	601,591
Telephone allowance	26,160
Car Allowance	256,155
Travel claim	6,528
Subsistence allowance	774
Remote allowance	34,376
	925,584

Notes to the Annual Financial Statements

Figures in Rand	30 June 2017

27. Employee related costs (continued)

Remuneration of Corporate and Human Resources (Corporate Services)

Salary	748,466
Car Allowance	65,106
Telephone allowance	21,000
Travel claim	12,147
Subsistence allowance	91,508
Reallocation Allowance	61,355
	999,582

Remuneration of Community Services

Salary	782,873
Car Allowance	190,894
Travel claim	38,209
Subsistence allowance	8,259
Telephone allowance	26,160
Remote allowance	39,017
	1,085,412

Remuneration of Director Technical Services

Telephone allowance	-
Travel claim	-
	-

The position has been vacant during the reporing period.

Remuneration of Director Economic and Planning

Salary	753,420
Car Allowance	178,251
Telephone allowance	26,160
Travel claim	8,419
Housing allowance	61,774
	1,028,024

Remuneration of Director Development and Planning

Salary	576,221
Car Allowance	116,073
Telephone allowance	22,660
Travel claim	31,598
Subsistance Allowance	4,697
Reallocation Allowance	55,692
Remote allowance	17,101
	824,042

Notes to the Annual Financial Statements

Figures in Rand	30 June 2017

28. Remuneration of councillors

Mayor	728,034
Speaker	682,110
Chief Whip	581,473
Councillors	21,366,340
	23,357,957

In-kind benefits

The Mayor, Speaker and Chief Whip are full time and provided with office space and secretarial support at the cost of the Council.

The executive committee consists of full time and part time members.

The Mayor has the right of use of a municipal vehicle including a driver.

Remuneration of Mayor

Car allowance	175,588
Cellphone allowance	25,682
Salary	526,764
	728,034

Remuneration of Speaker

Car allowance	140,470
Telephone allowance	25,682
Travel claim	71,581
Subsistence allowance	960
Salary	443,417
	682,110

Remuneration of Chief Whip

Car allowance	133,748
Telephone allowance	20,343
Travel claim	25,259
Subsistence allowances	880
Salary	401,243
	581,473

Remuneration of Councillors

Salary and allowances	21,366,340

29. Investment revenue

Interest revenue	
Bank	1,036,231
Interest on investment	8,002,783
	9,039,014

Notes to the Annual Financial Statements

Figures in Rand	30 June 2017

30. Depreciation and amortisation

Property, plant and equipment	95,732,477
Intangible assets	6,496
	95,738,973

31. Finance costs

Non-current borrowings	1,130,600
Current borrowings	951,258
Other interest paid	585,472
	2,667,330

32. Auditors' remuneration

Fees	6,862,466
Consulting	1,550
Audit committee	565,613
	7,429,629

33. Rental of facilities and equipment

Premises	270,704

34. Contracted services

Professional services	12,455,599
Cash collection cost	127,100
Specialist Services	7,187,507
Security and Other Contracted Services	40,796,375
	60,566,581

35. Grants and subsidies paid

Other subsidies	
Free Basic Eletricity	5,465,250

36. Cash generated from operations

Surplus	174,644,460
Adjustments for:	
Depreciation and amortisation	95,738,973
	-
Fair value adjustments	(23,129,000)
Finance costs	(2,267,331)
Impairment deficit	3,089,075
Debt impairment / (Reversal of Impairment)	(23,461,270)
Movements in provisions	2,857,169
Actuarial gains/losses	(787,095)
Current service cost	2,180,246
Interest cost on employee benefits	1,693,473
Provision for leave	963,712

Notes to the Annual Financial Statements

Figures in Rand	30 June 2017
36. Cash generated from operations (continued)	
Changes in working capital:	
Inventories	(197,295)
Receivables from exchange transactions	(10,351,478)
Other receivables from non exchange transaction	(60,959,428)
Payables from exchange transactions	(25,932,108)
VAT	(24,286,305)
Unspent conditional grants and receipts	(2,282,647)
Movement in provision	(316,921)
	107,196,230

37. Mergers

Mergers occurring during the current reporting period

On 10 August 2016 a merger between Greater Tubatse Local Municipality and Fetakgomo Local Municipality took place establishing a new combining entity called Fetakgomo Greater Tubatse Local Municipality. This was due to new legislation which determined that Greater Tubatse Local Municipality and Fetakgomo Local Municipality assets and liabilities should be combined. No acquirer could be identified.

The results of the merger are included in the 2017 financial statements of the combined entities.

Comparative information is not required to be restated or adjusted.

Value of assets acquired and liabilities assumed

Assets acquired	Greater Tubatse Local Munucipality / Audited 10 August 2016	Fetakgomo Local Municipality / Audited 10 August 2016	Adjustments	LIM 476 Local Municipality / Take on Balances 11 August 2016
Property, plant and equipment	1,328,858,551	149,370,228	3,377,279	1,481,606,058
Investment property	139,366,000	-	-	139,366,000
Intangible assets	38,345	49,994	-	88,339
Heritage assets	963,298	105,000	-	1,068,298
Inventory	545,366	551,569	-	1,096,935
Operating lease asset	2,909,538	-	(1,447,583)	1,461,955
Receivables from exchange transactions	52,763	1,290,538	-	1,343,301
Receivables from non-exchange transactions	4,862,737	658,288	(2,234,491)	3,286,534
VAT receivable	14,132,977	4,350,317	786,042	19,269,336
Consumer debtors from exchange transactions	34,228,113	928,488	-	35,156,601
Consumer debtors from non-exchange transactions	92,193,698	-	(23,487,597)	68,706,101
Cash and cash equivalents	180,616,686	1,261,078	321,879	182,199,643
	1,798,768,072	**158,565,500**	**(22,684,472)**	**1,934,649,100**
Liabilities assumed				
Finance lease obligation	302,446	86,679	-	389,125
Other financial liabilities	14,864,428	-	-	14,864,428
Operating lease liability	19,793,296	-	(1,447,583)	18,345,713
Employee benefit obligation	20,466,000	1,084,688	-	21,550,688
Provisions	9,289,408	3,985,532	-	13,274,940
Payables from exchange transactions	83,806,793	7,755,536	11,685,867	103,248,196
Unspent Conditional Grant	22,087,168	9,139,686	(5,941,047)	25,285,807
Cashbook overdraft	8,820,424	-	(17,640,851)	(8,820,424)
	179,429,966	**22,052,121**	**(13,343,614)**	**188,138,473**
Difference between the carrying amounts of the assets acquired and the liabilities assumed and any adjustments required to the basis of accounting, in net assets	**1,619,338,106**	**136,513,379**	**9,340,858**	**1,746,510,627**

Notes to the Annual Financial Statements

Figures in Rand		30 June 2017

37. Mergers (continued)

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38. Contingent Liabilities

The following are the Contingent liabilities assumed:

No.	Description	30 June 2017
1	Mopicon Costruction VS GTM . The Contractor (Mopicon Construction) was appointed to construct theBurgersfort Main Road which the contractor failed to do. He was eventually terminated for poor performance.The contractor then sued the Municipality for R2,000,000 for breach of contract. The possible financialexposure is R2,571,001	2,571,001
2	Matladi Family Trust vs GTM. The Matladi Family Trust was interdicting development on the Leeuwvallei farmwhich is mainly the CBD of Burgersfort Town. The implication if the interdict of granted will mean that the alldevelopment in town will come to a halt. The possible financial exposure is nil.	-
3	Loncon Developments (Pty) Ltd vs GTM. Loncon is suing the Municipality for failing to protect a land which wasreserved for RDP Houses construction which land was invaded by squatters. They are suing for specificperformance i.e for R89 million or alternatively availing land of the same value to them. The possible financialexposure is R89 million.	89,000,000
4	Thushanang Construction vs GTM. The Municipality is sued for R615,000.00 by Thushanang Construction whoclaimed that the Municipal officials instructed him to proceed with the construction of Praktiseer Stadium andbudget allocation will follow later. When budget allocation did not materialize the Thushanang Constructionsued the Municipality for incurring extra costs without reimbursement. The possible financial exposure is R614 919.	614,919
5	Puladitsela Consulting v GTM. The consultant was appointed by the GTM for planning, design andimplementation of electrification on several villages within the GTM. They claim that the Municipality is usingtheir designs for implementation of Operation Mabone. The claim amount is R95m. The possibe financial exposure is R9.5m.	95,000,000
6	Limpopo Road Binders vs GTM. Case relating to a cession agreement, the matter is currently postponed. Theamount claimed is R376,148. The matter is being financed by COGHSTA. The possible financial exposure is R376 147.	376,147
7	Amelia Mashego vs GTM. Case relating to an offer of employment, the matter is currently postponed. Theamount claimed is R2,8million. The matter is being financed by COGHSTA. The possible financial exposure is R2 958 000.	2,958,000
-		-
8	Sebesho Caiphus vs Greater Tubatse . Dispute regarding contract of employment. Trial date is awaited. Thepossible financial exposure is R754,706.	754,706
9	Edward Maleni Property Consultants vs FLM. A dispute by Edward Maleni Property Consultants has been raised against the municipality to the value of R2,591,350 for failure to make payment for services rendered. The municipality denies the liability and counterclaim amount paid for services not rendered. The dispute is still in progress. The possible financial exposure is R2,591,350.	2,591,350
-		-
10	Performance bonus for s56/57 The section 56 and 57 employees had signed performance agreement for the payment of performance bonus subject to performance evaluation and meeting the set target. The performance evaluation had not been conducted. The financial exposure is Rnil.	-
11	Bernard Nchabeleng vs FLM. Bernard Nchabeleng claims an amount of R590,000 against the municipality for land. The matter is still in progress. The possible financial exposure is R590,000.	590,000
12	Mathibe Bernedict vs FLM. Mathibe Bernedict Mamogolo instituted a claim against the municipality for failure to effect payment after designing the logo for the municipality, the claim is estimated to be R1,000,000. Council resolved that a new logo be designed. The municipality is still awaiting further action from claimant. The possible financial exposure is R1,000,000.	1,000,000
13	MAMS Architecture vs FLM. MAMS Architecture alleges that upon completion of the project the full payment was not effected. The claim against the municipality is to the value of R157,603. A letter of demand has been issued but legal proceedings have not yet been instituted. The possible financial exposure is R157,603.	157,603
14	GTM vs Mosoma O.N. The Municipality dismissed the former Supply Chain Manager sequel being fingered inthe Mapotene Forensic report. He challenged his dismissal which was later confirmed by the arbitration. Hehas since approached the Labour Court on review to set aside his dismissal. The possible financial exposure is R1 319 798.	1,319,798
15	NA Koko vs GTM. Review application: parties are now awaiting a directive from the Labour Court regarding heads of argument. The possible financial exposure is R955 621.	955,621
16	E.H Hassim vs FT-GTM. E.H Hassim alleges that the unsigned cession agreement betweem him and the main contract should be executed by the municipality. The financial exposure is R1 034 618	1,034,618

Figures in Rand	30 June 2017

38. Contingent Liabilities (continued)

17 SuperQuick vs FTGM. The plaintiff alleges fixed punctures and change tyres on municipal vehicles. The financial exposure is R8 342.	8,342
18 GTM vs Marathi Inc. The main contractor appointed by GTM failed to pay their subcontractor and the subcontractor obtained judgment against GTM. The financial exposure is R453 720	453,720
	199,385,825

39. Commitments

Authorised capital expenditure not completed

Already contracted for but not provided for	
• Capital expenditure	65,828,972
Total capital commitments	
Already contracted for but not provided for	65,828,972

Authorised operational expenditure

Already contracted for but not provided for	
• Operational expenditure	49,279,466
Total operational commitments	
Already contracted for but not provided for	49,279,466

Total commitments

Total commitments	
Authorised capital expenditure	65,828,972
Authorised operational expenditure	49,279,466
	115,108,438

This committed expenditure relates to plant and equipment and will be financed by existing cash resources and grants.

Operating leases - as lessee (expense)

Minimum lease payments due	
- within one year	20,527,006
- in second to fifth year inclusive	47,417,385
	67,944,391

LIM 476 Local Municipality leases a building from Tubatse Properties (Pty) Ltd for a period of 10 years, effective from 1 July 2010. The lease payment is R877 800 per month with an annual escalation of 10%. No contingent rent is payable. The lease agreement is not renewable at the end of the lease term.

40. Comparative figures

No comparative figures have been presented as these are the first annual financial statements of the municipality.

41. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and cashflow budgeting.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial instrument	2017
Receivables from exchange transactions	1,337,031
Receivables from non-exchange transactions	2,982,105
Consumer debtors from non-exchange transactions	66,023,589
Consumer debtors from exchange transactions	129,665,529
Cash and cash equivalents	217,721,448

42. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. The municipality merged with the Fetakgomo local municipality following the 2016 local government elections and will continue operations as the new merged entity, and has therefore been accounted for as a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

43. Fruitless and wasteful expenditure

Opening balance / Merger	7,543,767
Incurred during current year	3,064,485
Less: Amount written-off by Council	(1,849,325)
	8,758,927

Council has referred this amount to the MPAC for investigation and subsequent ratification.

44. Irregular expenditure

Opening balance / Merger	181,474,345
Expenditure incurred current year	18,708,081

44. Irregular expenditure (continued)

Less: Amount written-off by Council	(137,819,362)
	62,363,064

Council has referred this amount to the MPAC for investigation and subsequent ratification.

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Non compliance SCM regulations:		-
Bauba Marumo Waste Management (Landfill site management) - SCM processes not followed during appointment of service provider.	Currently under investigation	11,136,796
Fawcet Security Services (Security services) - Tender processes were not followed.	Currently under investigation	1,533,673
Focus Outsourcing (Processing monthly rates and services accounts) -	Currently under investigation	254,616
MGL Engineering (Maintenance of machinery) - Tender processes were not followed.	Currently under investigation	1,022,206
Exagystix CC t/a XLP Document Solution (Rental of printers)	Currently under investigation	2,680,424
Mascon Treading CC	Currently under investigation	1,440,000
Marsh (Pty) LTD	Currently under investigation	287,841
Nashua	Currently under investigation	90,125
Leshabane Technologies	Currently under investigation	262,400
		18,708,081

45. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Current year fee	7,963,703
Amount paid - current year	(7,963,703)
	-

SALGA Fees

Current year subscription / fee	1,338,704
Amount paid - current year	(1,338,704)
	-

PAYE and UIF

Current year subscription / fee	24,075,366
Amount paid - current year	(24,075,366)
	-

Pension and Medical Aid Deductions

Current year subscription / fee	35,269,224
Amount paid - current year	(35,269,224)
	-

VAT receivable

Opening balance / Merger	14,882,233
Total claimed from SARS during the year	38,542,659
Total amount received during the year	(9,869,251)

45. Additional disclosure in terms of Municipal Finance Management Act (continued)

	43,555,641

All VAT returns have been submitted by the due date throughout the period. The municipality is registred on the cash basis and the timing of payments to/from SARS is at the end of each month.

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident	
Emergency expenditures	999,891
Sole suppliers	832,085
Exceptional expenditures	8,818,043
	10,650,019

Councillors' arrear consumer accounts

The following Councillors had arrear accounts on 30 June 2017 .

30 June 2017	Outstanding more than 30 days	Total
Councillor M P Makine	1,912	1,912
Councillor I T Makofane	31,205	31,205
	33,117	33,117

46. Debt impairment

Debt impairment	(23,461,270)
Contributions to debt impairment provision	-
Bad debts written off	-
	(23,461,270)

47. Fair value adjustments

Investment property (Fair value model)	23,129,000
Other financial liabilities	
• Other financial assets (Held for trading)	-
• Fair value throuhg profit or loss	-
	23,129,000

48. Related parties

Relationships

Directors	Refer to note 27
Councillors	Refer to note 28

48. Related parties (continued)

The Directors and Councillors are related parties and their transactions are included in note 27 and 28. The municipality has various processes in place to identify and note any related party transactions. These processes range from disclosure by bidders on the bid documents (MBD4) to maintenance of a conflict of interest register. For councillors, the disclosure register is kept in the Office of the Speaker whilst for other senior managers it is kept by the Corporate Services Directorate.

Councillors and Directors are related parties and their transactions are included in the notes to the financial statements.